

INDEPENDENT
ENERGY
PRODUCERS



May 7, 2018

The Honorable Edmund G. Brown, Jr.
Governor, State of California
State Capitol, First Floor
Sacramento, CA 95814

The Honorable Toni G. Atkins
President pro Tempore, California State Senate
State Capitol, Room 205
Sacramento, CA 95814

The Honorable Patricia Bates
Republican Leader
California State Senate
State Capitol, Room 305
Sacramento, CA 95814

The Honorable Anthony Rendon
Speaker, California State Assembly
State Capitol, Room 219
Sacramento, CA 95814

The Honorable Brian Dahle
Republican Leader
California State Assembly
State Capitol, Room 3104
Sacramento, CA 95814

Dear Governor Brown, Pro Tem Atkins, Speaker Rendon, Republican Leaders Bates and Dahle:

Our organizations collectively represent the developers and owners of over 28,000 MW of utility-scale renewable energy projects that are largely responsible for the achievement of California's renewable and low carbon energy goals over the past decade – goals that have been met affordably while preserving electric system reliability. We write to you today with some urgency to ensure that the Legislature recognizes the importance of a financially stable electric system that furthers ongoing investment in clean technologies in the face of climate change.

California is experiencing effects of climate change more rapidly than predicted as evidenced by increasing temperatures, weather extremes, and severe wildfires. California has been at the forefront of pursuing aggressive climate mitigation, and now we must also develop adaptation strategies and policies to protect our infrastructure – including the electric generation and transmission system. This necessitates financially solvent and stable utilities, which provide the

backbone of the state's electric grid, and sustained momentum in renewable energy procurement by load-serving entities (LSEs). Renewable energy generation and financially healthy LSEs are wholly interdependent, and your immediate attention is required to ensure the sustainability of both.

Late last year, outside of the traditional "fire season," California experienced two large catastrophic fires that had devastating impacts on local communities. These tragic events were unprecedented in scale and scope and are a frightening harbinger of the future. It will take time and great effort to heal and rebuild these impacted communities. The actual causes of the fires have yet to be determined by the fire investigators at Cal Fire; however, the wildfires and their impact on our electricity system have showcased an acute financial vulnerability that may have long-term ramifications and consequently deserve a thoughtful and expedient legislative response.

At issue is the court's interpretation of a state constitutional provision on "inverse condemnation" which holds that utilities are legally responsible for damages from wildfires caused by their equipment, regardless of fault. There is need to clarify how and whether the utilities can pass along those costs to their ratepayers and, going forward, how the state can adapt its policies to prepare for future events. Last November, the Public Utilities Commission rejected a proposal by San Diego Gas and Electric to pass along \$379 million in uninsured 2007 wildfire costs to their ratepayers. (SDG&E has filed for rehearing of the decision, and PG&E and SCE have joined in that request.) While the Commission was careful to clarify that it did not intend for the decision to be precedential, citing the need for additional clarity from the courts and legislature, its action has raised new financial uncertainty for utilities that is impacting rating agencies' assessment of the risk of investing in utility stocks.

The presence or even the appearance of financially vulnerable utilities has, and will continue to, destabilize energy markets in California. A case in point: in March of this year, one of the state's operating solar projects – Topaz, a 550-MW PV facility owned by Berkshire Hathaway Energy – was targeted for a potential credit rating downgrade due to the perceived fragility of its only off-taker, PG&E, whose ratings were downgraded late last year. Last month, Moody's Investor Services changed the credit outlook of both SDG&E and SCE from stable to negative, basing its action on 'regulatory uncertainty.' These alarming events put California's 28,000 MW of renewable energy contracts – representing more than \$50 billion in investment – on notice that they could be at risk if their utility off-takers' financial positions weaken. This situation has the attention of energy utility leaders and investors worldwide.

Beyond the immediate threat to existing renewable energy investment, the ability of California to meet its long-term greenhouse gas goals is directly dependent upon robust new investment in clean technologies. These investments are stymied with the addition of financial instability into the already complex California electricity market.

California needs more renewable energy – and cannot afford to wait. Under current state renewable requirements, LSEs need approximately 10,000 MW of new long-term contracts online by 2025. Regardless of the type of load-serving entity (Investor Owned Utility, Publicly Owned Utility, Community Choice Aggregators or Electric Service Providers) procuring to meet

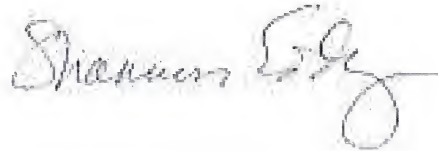
this need, procurement will require solvent and stable utilities. California must both find solutions to sustain viable investor owned utilities and continue sustained renewable energy procurement. Failure to act on either front imperils our markets and progress toward our climate goals.

As the Governor and Legislature address the multiple significant issues brought forward by these fires, decisions recognizing the need for solvent utilities will be important in addressing long term solutions. Collectively, we are committed to working with you to address these immediate challenges and to develop the longer term solutions required to adapt to the effects of climate change. By way of this letter, we are requesting to meet with you to discuss the urgency of the situation, and the steps necessary to ensure forward progress.

Sincerely,



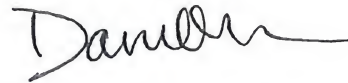
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Cc: Members of the California State Senate
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Alice Reynolds, Senior Advisor, Office of the Governor
Alice Stebbins, Executive Director, California Public Utilities Commission
Arocles Aguilar, General Counsel, California Public Utilities Commission
Robert B. Weisenmiller, Chair, California Energy Commission